



THE *Tri Pillar Investments Presents...* WEEKLY ECONOMIC UPDATE

January 30, 2012

WEEKLY QUOTE

“Judge each day not by the harvest you reap but by the seeds you plant.”

- Robert Louis Stevenson

WEEKLY TIP

Spending and value should go hand in hand. Reduce or forego spending money on things that don't bring you much value.

WEEKLY RIDDLE

It has no crown, yet when the chips are down it is more powerful than a king or queen. What is it?

Last week's riddle:

I'm usually standing on a city sidewalk, and I'll always stand by your car. But if you don't feed me, you may get into trouble. What am I?

Last week's answer:

A parking meter.

ECONOMY GROWS 2.8% IN Q4

While this is the best GDP reading since Q2 2010, the initial estimate from the Bureau of Economic Analysis still disappointed the markets. Many economists and investors were looking for growth of 3.0% or better. The majority of the growth actually came from increased inventories. Consumer spending rose 2.0% last quarter, with auto sales being the biggest factor. Durable goods orders did see 3.0% growth in December, putting them 45% above the recession low hit in April 2009.^{1,2,3}

DIPS IN NEW & PENDING HOME SALES

The number of signed home sale contracts fell 3.5% in December, according to the National Association of Realtors. Separately, a Census Bureau report showed that new home sales declined 2.2% in December.^{4,5}

MARQUEE SENTIMENT INDEX AT 11-MONTH PEAK

The Thomson Reuters/University of Michigan consumer sentiment index ended January at 75.0. This was way up from December's 69.9 mark, and it beat the 74.1 reading forecast by economists surveyed by Reuters.^{6,7}

PRECIOUS METALS GAIN ALLURE

At Friday's COMEX close, gold was +10.56% YTD, copper +13.18% YTD and silver +21.05% YTD. Crude futures finished last week at \$99.56 per barrel on the NYMEX, putting oil merely at +0.74% YTD. (Retail gas prices were +3.67% for the month as of Friday.)²

A STRONG MONTH COMES TO A CLOSE

With just a couple of trading days left, January is shaping up to be the best month for U.S. equities since October (see the YTD numbers below). Across last week, the S&P 500 rose 0.07% to 1,316.33 and the NASDAQ gained 1.07% to 2,816.55; the Dow slipped 0.47% to fall to 12,660.46.¹

THIS WEEK: The December consumer spending report comes out Monday. On Tuesday, earnings reports arrive from Amazon.com, Broadcom, ExxonMobil, UPS, Pfizer and Eli Lilly - and we also get the latest S&P/Case-Shiller home price index and the Conference Board's January consumer confidence poll. Wednesday, Q4 results roll in from Qualcomm, Electronic Arts, Aetna and Marathon Oil and the latest ISM manufacturing index appears. Besides new initial claims figures, Thursday brings Q4 results from Unilever, Sony, Deutsche Bank, Merck and Beazer Homes. Friday, the January unemployment report is out along with ISM's service sector index and data on December factory orders; Clorox also issues Q4 results.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+3.63	+5.59	+0.28	+2.83
NASDAQ	+8.11	+2.22	+3.13	+4.49
S&P 500	+4.67	+1.29	-1.49	+1.62
REAL YIELD	1/27 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.18%	1.16%	2.48%	3.48%

The TPI Perspective: By Dr. Barry D. Kendall

THE MARKET REVIEW

A portion of Wall Street had its first losing week of 2012, with the Dow Jones Industrials being down a half percent. On the brighter side, the S&P 500 was slightly positive, the small-cap Russell 2000 popped 1.8 per cent and the tech-rich Nasdaq Composite rose 1.1 per cent. Equities did rally on Thursday, following the announcement by the Federal Reserve that it plans to keep interest rates low through till at least 2014. The Fed report was covered very well by Shane Burke, TPI's Chief Investment Officer, in his Friday Newsletter. This counterbalanced some disappointing weaker-than-expected GDP growth figures of only 2.8 per cent. Reports of rising inventories were a large component of this growth, which either represents optimism by manufacturers, or more likely suggests a lackluster demand for goods. Consumer spending was flat in December. Households took advantage of the largest rise in income in nine months to boost savings, setting the tone for a slowdown in demand early in 2012. On Thursday, December New Home Sales reported a surprise drop of 2.2 per cent, and Pending Home Sales also missed expectations coming in at -3.5 per cent versus a -1 per cent estimate.

Apple reported earnings of \$13.87 per share compared to a consensus estimate of \$10.16, surpassing expectations of even the biggest Apple bulls. Caterpillar rose 2.7 per cent on a strong earnings report. It was also supported by an optimistic statement by management that gave a highly favorable view for the company and the overall economy, as demand across all segments and geographies appeared strong.

Commodity prices firmed ever so slightly at week's end, with U.S. crude oil prices hovering around \$100 per barrel. Eyes are on Iran this Monday, as International Atomic Energy Agency inspectors arrive for talks on Iran's nuclear program. Investors are bracing for possible reactions from Iran's leaders and how that would affect oil supplies in the future. Precious metals lost ground, with silver losing 1.9 per cent to \$33.15. Soft commodities were broadly weaker, while copper lost almost 2 per cent. Gold continues to consolidate and move higher after last week's boost by the Federal Reserve, which now sees gold firmly in the \$1,700 territory. Bullion, which struck a record high \$1,920 last September, is on track for a gain of more than 10 per cent this month.

There were reports late Friday that Delta Airlines was considering the possibility of a takeover bid for its rival U.S. Airways. Delta is also said to be considering a similar move for American Airlines parent AMR, currently operating under bankruptcy protection.

EUROPEAN NEWS

European Union leaders are gathering this Monday for their first summit of the year. The official agenda is focused on striking a balance between more austere fiscal measures for nations with unsustainable levels of debt and policies that will help revive economic growth across the 17-member euro-currency area. They are expected to back a treaty that would speed implementation of the European Stability Mechanism, which serves as the financial buttress for the 17-member EU. Difficult debt negotiations in Greece have revived concerns about a default. Greek leaders and creditors in the private sector have yet to reach agreement on restructuring of government debt. The Greek debt situation appears to be getting more complicated after German leaders sought "two monumental concessions." The German proposal calls for Greece to give up control of its own finances by installing a budget overseer who would be appointed by the European Union. The Greeks are insulted. Greek Finance Minister Evangelos Venizelos' response was to caution Germany "from giving Greece an ultimatum between assistance and dignity."

Spain's economy contracted in the final quarter of 2011 for the first time in two years and looks set to slip into a long recession. Investors are also concerned about Portugal where borrowing costs continue to soar with the yield on the 10-year Portuguese bond rising to 17 per cent. On a positive note, borrowing costs in Italy retreated following a series of strong bond auctions. The yield on the 10-year Italian

bond edged as low as 5.9 per cent.

Fitch rating agency downgraded the sovereign debt ratings Friday of five European countries, with Italy and Spain taking the biggest hit. Italy, the third largest economy in the euro zone, had its rating cut two levels to A- from A+. Spain was cut two levels to A from AA-. Slovenia was also cut two levels to A. Cyprus and Belgium were each cut one notch, Belgium to AA and Cyprus to BBB-, the lowest possible level before hitting junk bond status.

FACEBOOK'S IPO

Facebook Inc., the world's largest social-networking service, is aiming to file for its initial public offering as early as this week, according to people with knowledge of the matter. The company led by 27 year old Mark Zuckerberg could be the biggest initial public offering ever for an internet company, perhaps even topping the record-breaking Google offering in 2004.

By this summer, Facebook is forecast to have one billion users: one of every seven people on the planet. The total number of users is not however the most important factor, but how long they stay on line. Studies show the average user is on over one half hour. The more time users spend, the more advertising Facebook can send their way. Facebook's value to advertisers is based on how much it knows about the users and what you do online is termed the "digital tattoo", something Facebook provides more knowledge of than anyone. They are forecast to bring in more than \$5.7 billion in ad revenue this year, up from \$4 billion in 2011.

Another indication that an IPO filing looms comes from SecondMarket, the private company that runs a market for shares of private companies. Facebook is the most actively traded stock on SecondMarket. On Wednesday, Facebook's law firm, Fenwick & West, halted trading in Facebook shares. Zuckerberg has long said that he wanted to keep Facebook private, but it has been growing so fast that it's running up against SEC rules that would make it tricky for Facebook to shield its financials from public scrutiny. That same issue is what led Google to go public less than six years after it launched.

Facebook is seeking a valuation between \$75 billion and \$100 billion. If successful, this would raise \$10 billion and be the sixth largest U.S. IPO and six times larger than Google's initial offering. Visa set the record in 2008, when it raised \$17.9 billion. Morgan Stanley is expected to be lead underwriter, with Goldman Sachs also likely to play a major role.

LOOKING AHEAD

Results from the European leader's summit and negotiations between Greece and their creditors will hold the keys to the markets in the short term. TPI believes that the government and citizens of Greece will have a very difficult time changing their cultural habits of avoiding paying taxes, relying on government wage subsidies, early retirement and generous benefits. They certainly are not going to agree to outside control of their finances. For those reasons, we do not expect a quick resolution to their debt situation, and therefore they are at a reasonably high risk for default. The bigger question remains how the banking system in Europe would withstand such a situation?

Most domestic reports start on Tuesday with the January Consumer Confidence, followed later in the week with the January ISM Manufacturing, Domestic/Total Vehicle Sales, Q4 Nonfarm Productivity, January Nonfarm Manufacturing Payrolls, and Unemployment Rate. Earnings reports from Amazon, Tyco, UPS, Viacom and Merck will all be watched with interest. TPI wishes all a wonderful and safe Super Bowl Weekend. Please let us know if you have any questions or comments.